

Steven L. Beshear
Governor

Leonard K. Peters, Secretary
Energy and Environment
Cabinet



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda K. Breathitt
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovich
502-782-2564 or 502-564-3940
502-330-5981 (cell)
Andrew.Melnykovich@ky.gov

Natural Gas Will Cost More This Winter Than Last Year

PSC says consumers can reduce bills through energy efficiency

FRANKFORT, Ky. (Oct. 31, 2013) – Natural gas costs at the start of the 2013-2014 heating season will be higher than last year, but are still well below the peak reached in 2008, the Kentucky Public Service Commission (PSC) said today.

On average, Kentucky customers can expect to pay about 19 percent more this November than last if they consume 10,000 cubic feet of natural gas. The average total bill for 10,000 cubic feet – including base rates – is projected to be about \$101.81.

That is down nearly \$49 since November of 2008 - a decrease of 32 percent. The lower cost of natural gas has more than offset increases in base rates over that time.

"Natural gas prices have rebounded from last year's abnormally low levels, but this year's prices are still quite low," PSC Chairman David Armstrong said. "Demand is up because more natural gas is being used to generate electricity and the overall economy has improved.

"But the significant increases in gas production and supply are projected to provide price stability in the coming years," he said. "The very large year-to-year fluctuations we saw in the previous decade are unlikely to be repeated anytime soon."

Weather – not price – is the dominant factor in determining the amount of energy that consumers use to heat their homes and thus the size of their heating bill, Armstrong said. The best weapon consumers have to manage their energy costs is to take steps to reduce consumption, he said.

"The best thing consumers can do is to reinvest a portion of the savings from relatively low energy costs now into permanent improvements, such as weatherization, that will provide insulation against higher energy costs in the future," Armstrong said.

Wholesale natural gas costs this year are, on average, about 35 percent higher than the very low levels of a year ago. Only one of Kentucky's five large natural gas distribution companies has received a base rate increase in the last year.

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Wholesale costs make up the largest portion of retail gas bills during the heating season. They are passed through to consumers on a dollar-for-dollar basis by local distribution companies.

Changes in individual ratepayer bills will vary by company and customer usage.

Wholesale prices over the last five years have not approached the peak prices seen since a sharp upward turn in 2008. Prices declined even more abruptly during the economic downturn in 2009, and have remained relatively stable since then.

By federal law, natural gas prices are not regulated at the wholesale level and generally fluctuate with supply and demand. Under Kentucky law, gas companies are entitled to recover the wholesale cost of the gas delivered to customers, including the fees they pay to interstate pipelines to transport the gas to their retail distribution systems. Companies are not allowed to earn a profit on their gas commodity costs. The companies' gas cost adjustments are reviewed by the PSC to make sure they accurately reflect the wholesale cost of gas.

About half of the natural gas used for winter heating is put into storage in the summer. The price at which it was purchased is the price passed through to consumers. Until the last decade, natural gas prices typically were considerably lower in the summer than in the winter. That gap has narrowed in recent years, due in large part to the increased use of natural gas to generate electricity.

Kentucky's five major natural gas distribution companies expect their adjusted wholesale cost this November to be, on average, \$5.95 per 1,000 cubic feet (mcf). That is up \$1.52 (34 percent) from an average of \$4.43 per mcf a year ago.

In August 2008, the average adjusted wholesale cost peaked at \$15.17 per mcf.

The wholesale cost of natural gas now accounts for just over half of a typical consumer's winter bill. A typical Kentucky customer using 10 mcf next month will pay a total monthly bill of \$101.81, up \$16.26 – or about 19 percent - from the \$85.55 average bill a year ago.

That increase is an average for Kentucky's five major local natural gas distribution companies as of November. It will change as companies make further wholesale cost adjustments throughout the heating season.

Wholesale costs and base rates vary by company. The base rates reflect a utility's day-to-day operating costs, including the cost of delivering gas, as well as a return on equity for company shareholders.

The five major natural gas distribution companies in Kentucky are Atmos Energy, Columbia Gas of Kentucky Inc., Delta Natural Gas Co. Inc., Louisville Gas and Electric Co. and Duke Energy Kentucky Inc. Together the five companies serve more than 750,000 customers in Kentucky and deliver about 176 billion cubic feet of gas annually.

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About 44 percent of Kentuckians heat their homes with natural gas. For those who heat with propane (10 percent), prices are likely to be about 20 percent higher than a year ago, while those heating with fuel oil (3 percent) will see prices similar to those last year.

The 39 percent of Kentuckians who use electric heat are likely to see somewhat higher bills on average this winter, in part because three of Kentucky's largest electric utilities have had rate increases in the last year.

Although the slow pace of economic growth has helped keep fuel prices stable, it also has left many Kentuckians struggling to pay their heating bills, Armstrong said. Heating assistance is available from local community action agencies and from utility companies, but funds are limited and sometimes run out during the heating season, he said.

"Do not allow a difficulty in paying a utility bill to become a crisis," Armstrong said. "Now is the time to take the necessary steps if you think that you may need assistance in paying your heating bill this winter."

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.

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GAS COST CHART AND CONSUMER INFORMATION SHEET FOLLOW

NATURAL GAS COSTS AND BILLS IN 2013-2014

Wholesale gas costs

Utility	Nov. 2012 cost per 1000 ft ³	Nov. 2013 cost per 1000 ft ³	Change
Atmos Energy	\$4.59	\$5.70	+ \$1.11
Columbia Gas##	\$3.55	\$6.67	+ \$3.12
Delta Gas	\$5.30	\$7.59	+ \$2.29
Duke Energy#	\$4.44	\$4.61	+ \$0.17
Louisville Gas & Electric**	\$4.25	\$5.17	+ \$0.92
AVERAGE	\$4.43	\$5.95	+ \$1.52 (+34%)

AVERAGE GAS COST IN 2008: \$11.70

Monthly bill – for customer using 10,000 ft³

Utility	Nov. 2012	Nov. 2013	Change
Atmos Energy	\$69.36	\$80.47	+ \$11.11
Columbia Gas##	\$66.52	\$97.79	+ \$31.27
Delta Gas	\$116.89	\$139.81	+ \$22.92
Duke Energy#	\$97.58	\$99.34	+ \$1.76
Louisville Gas & Electric**	\$77.40	\$91.66	+ \$14.26
AVERAGE	\$85.55	\$101.81	+ \$16.26 (+19%)

AVERAGE MONTHLY BILL IN 2008: \$150.78

Duke Energy Kentucky adjusts gas costs on a monthly basis; the other four large distribution companies adjust gas costs every three months

Columbia Gas of Kentucky adjusts gas costs on a different quarterly cycle than Atmos Energy, Delta Gas and Louisville Gas & Electric. Columbia Gas will next adjust costs in December

** Louisville Gas & Electric had a base rate increase in December 2012

COPING WITH HOME HEATING COSTS

Information for consumers

Kentucky consumers can take a number of steps to reduce their natural gas usage or to soften the impact of gas costs. They include:

Budget billing: This option allows customers to pay the same amount each month, based on their average monthly usage during the year. Customers should contact their utility for more information.

Energy conservation measures: Simple steps such as turning down thermostats on furnaces (most people are comfortable at 68 degrees) and water heaters (120 degrees is hot enough for nearly all uses) can be big energy savers.

Energy audits: Many local utilities offer home energy audits at little or no cost to consumers. These audits can identify energy-wasting trouble spots and provide information on how to correct the problems.

Weatherization: Consumers can do a number of things to reduce inflows of cold air and leakage of warm air, particularly around windows and doors. Some basic weatherization steps include:

- Use caulk or weatherstripping to seal cracks around windows, doors, pipes and other points where cold air can enter the home. This alone can reduce heating costs by 10 percent or more.
- Install energy-efficient doors and windows.
- Add insulation in attics, crawl spaces and walls.
- Cover windows, especially those with single-pane glass, with storm windows or plastic sheeting before the onset of cold weather.
- Clean or replace furnace filters monthly to improve airflow and efficiency.

Advice on conserving energy, including links to a wide range of information, also is available from the Kentucky Department for Energy Development and Independence on the Web at: <http://energy.ky.gov/efficiency/>.

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Weatherization assistance for low-income families is available in Kentucky. Many utilities offer weatherization assistance in conjunction with local social service agencies. Local social service agencies also offer assistance through a state program administered by the Kentucky Cabinet for Health and Family Services. For information on weatherization assistance, go to:

<http://www.communityactionky.org/WhatWeDo/EnergyAssistance/Weatherization/tabid/356/Default.aspx>

Low-income consumers may qualify for assistance with their heating bills through the Low-Income Home Energy Assistance Program (LIHEAP). It is administered at the local level by community action agencies. Consumers who do not qualify for LIHEAP may be eligible for assistance through programs sponsored by their utility company or programs operated by local social service organizations. Consumers should contact their utility for more information. Information about LIHEAP is available on the Web at:

<http://chfs.ky.gov/dcbs/dfs/LIHEAP.htm>

For general information about cutting heating costs, utility issues or for assistance with resolving consumer disputes with utilities, contact the PSC by calling 800-772-4636 or go to the PSC Web site at:

<http://psc.ky.gov>

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